JOINT COMMITTEE ON TAXATION
JCX-20-86

August 4, 1986

REVENUE ESTIMATES, PRELIMINARY

OFFICIAL HOUSE OFFER

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
I - INDIVIDUAL INCOME TAX PROVISIONS		
15- and 27-percent rates	-199.5	House recedes.#
Relief from individual rate and standard deduction staggers	(1)	House recedes, with an amendment of 1/1/87 effective date.#
Increase in standard deduction	-41.8	House recedes with an increase from $600 to $750 for elderly and blind who are single (Senate offer).#
Personal exemption increase	-130.3	House recedes.
Floor under itemized deductions	17.4	Senate recedes, with an amendment reducing the floor to $350 each for the taxpayer and spouse, and eliminating the floor for other dependents.
Repeal second earner deduction	27.0	Same in both bills.
Repeal income averaging	8.9	Senate recedes (item in President's Proposal).
Increase the earned income tax credit (4)	-14.8	House recedes, with amendment raising maximum credit from $700 to 800 and changing phaseout range to $9-17,000 (Senate offer).
Taxation of unemployment compensation	3.5	Same in both bills.
Limit exclusion of scholarships and fellowships	0.5	Senate recedes (item in President's Proposal).
Taxation of prizes and awards	(2)	Senate recedes.
Repeal sales tax deduction	0.0	Senate recedes.
$100 floor on charitable contributions deduction for nonitemizers	0.0	House recedes.
Increase medical expense deduction floor	6.1	House recedes, with amendment providing a 7.5% floor.
Repeal deduction for special needs adoption expenses	0.0	Senate recedes.
Limitations on deductions for meals, travel, and entertainment		
Individual	5.2	Senate recedes (see Note b).#
Corporate	6.3	
Miscellaneous itemized deductions, employee business expense	19.7	Senate recedes, with amendment providing a floor of 2% of AGI (Senate offer).#
Repeal political contributions tax credit	0.6	Senate recedes.

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Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Subtotal, Individual Income Tax Provisions		
Individual	-297.5	
Corporate	6.3	
Total	-291.2	
II - CAPITAL COST PROVISIONS		
Depreciation, expensing		
Individual	5.5	Compromise ACRS system, with all transitional rules open.#
Corporate	18.0	
Investment tax credit		
Individual	22.5	Same in both bills, with all transitional rules open.
Corporate	128.6	
Repeal finance leasing		
Corporate	1.3	Same in both bills.
Credit limitations		
Corporate	1.0	Same in both bills.
Incremental Research Tax Credit		
Individual	-0.3	Senate recedes.
Corporate	-3.8	
Charitable deduction for donations of scientific equipment		
Individual	(3)	Senate recedes.
Corporate	(3)	
Orphan drug credit		
Corporate	*	Senate recedes, with a 3-year extension (see Note b).
Amortization of trademarks and tradenames		
Individual	(2)	House recedes.
Corporate	0.1	
Repeal 5-year amortization of pollution control		
Individual	(2)	Senate recedes (item in President's Proposal).
Corporate	*	
Repeal 50-year amortization of railroad tunnels and bores		
Corporate	(2)	Senate recedes (item in President's Proposal).
Expensing for removal of architectural barriers		
Corporate	-0.1	House recedes.
Rehabilitation tax credits		
Individual	3.2	Same in both bills, with all transitional rules open.
Corporate	1.0	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Retain 5-year amortization of expenditures for rehabilitation of low-income rental housing		
Individual	*	House recedes; combine low-income housing
Corporate	*	provisions into a new credit.
Low-income housing credit		
Individual	-4.0	House recedes, with an amendment adding $1 billion of additional incentives. Structure of credit is left open.
Merchant Marine Capital Construction Fund		
Corporate	(2)	Senate recedes.
Subtotal, Capital Cost Provisions		
Individual	26.9	
Corporate	146.1	
Total	173.0	
III - CAPITAL GAINS AND LOSSES		
Capital gains		
Individual	(1)	House recedes.#
Corporate	(1)	Senate recedes, effective 1/1/87 (Senate offer).#
Incentive stock options		
Individual	*	Senate recedes.
Straddles		
Individual	*	House recedes on covered calls; Senate
Corporate	*	recedes on other provisions.
Subtotal, Capital Gains and Losses		
Individual	*	
Corporate	*	
Total	*	
IV - AGRICULTURE, TIMBER, ENERGY, AND NATURAL RESOURCES		
Special expensing provisions		
Individual	0.3	Senate recedes (item in President's
Corporate	0.1	Proposal).#
Preproductive period expenses of farmers		
Individual	0.6	Senate recedes.
Corporate	0.2	
Prepayments		
Individual	0.1	House recedes, with modifications.#

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Preproductive expenses of growing timber		
Individual	0.1	Senate recedes, with amendment providing
Corporate	1.9	that preproductive expenses are amortized over 5 years, deleting House requirement to use straight-line depreciation.
Repeal 84-month amortization, 10% credit for reforestation		
Individual	(2)	Senate recedes (item in President's
Corporate	(2)	Proposal).
Capital gains treatment of timber income		
Corporate	0.0	Treat as ordinary income, effective 1/1/87.
Intangible drilling costs		
Individual	(2)	Senate recedes.
Corporate	0.5	
Oil, gas, geothermal depletion		
Individual	1.0	Senate recedes (similar item in President's
Corporate	0.5	Proposal).#
Gain on disposition of interest in oil, gas, or geothermal property		
Individual	(2)	Senate recedes (item in President's
Corporate	(2)	Proposal).
Mining exploration and development		
Corporate	0.2	Senate recedes.#
Hard minerals depletion		
Individual	(2)	Senate recedes (similar item in President's
Corporate	1.0	Proposal).#
Gain on disposition of interest in mining property costs		
Corporate	(2)	Senate recedes (item in President's Proposal).
Capital gains treatment of coal and iron ore royalties		
Individual	0.0	Treat as ordinary income.
Corporate	0.0	
Energy-related tax credits and incentives		
Individual	0.0	House recedes on residential solar; compro-
Corporate	-0.1	mise on nonconventional fuels; taxicabs
Excise	*	open; Senate recedes on remainder (10%
Customs	*	business solar credit in 1988 (see Note b); similar item in President's Proposal).#
Subtotal, Agriculture, Timber, Energy, and Natural Resources		
Individual	2.1	
Corporate	4.3	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Excise	*	
Customs	*	
Total	**6.4**	
V - TAX SHELTERS, INTEREST EXPENSE		
At-risk rules		
Individual	1.2	Senate recedes.
Corporate	-1.2	
Limitation of passive losses		
Individual	32.1	House recedes, with amendment providing no exception for working interests.
Corporate	-12.2	
Limitation on deduction for nonbusiness interest		
Individual	26.2	House recedes.#
Subtotal, Tax Shelters, Interest Expense		
Individual	59.5	
Corporate	-13.4	
Total	**46.1**	
VI - CORPORATE AND GENERAL BUSINESS TAXATION		
33-percent top corporate rate		
Corporate	-124.7	House recedes.
Dividends paid deduction		
Individual	0.1	Senate recedes, with modification (item in President's Proposal).#
Corporate	-2.4	
Dividends received deduction		
Corporate	1.1	Senate recedes.
Extraordinary dividends		
Corporate	0.2	House recedes, with modifications (see Note b).
Dividend exclusion		
Individual	2.6	Same in both bills.
NOL carryovers		
Corporate	0.3	Compromise proposal (keep House rate and business continuity requirement; modify House investment asset rule; keep Senate built-in deductions and capital contributions; modify Senate bankruptcy rule).#
NOL carryback tax rate limitation		
Corporate	0.0	Senate recedes.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Recognition of gain or loss in liquidations		
Individual	-0.2	Senate recedes, with changes in effective date, permitting binding contract for sale of company or substantial completion of liquidation by 8/1/86; revised rule for small, closely-held corporations requiring substantial completion of liquidation by 1/1/89.#
Corporate	2.2	
Basis allocation		
Individual	(2)	House recedes.
Corporate	0.3	
Real estate investment trusts		
Individual	(3)	House recedes, with modifications.#
Mortgage-backed securities		
Corporate	-0.3	House recedes, with modifications.#
Regulated investment companies		
Individual	0.7	House recedes, with modifications.#
Excise	0.1	
Personal holding companies		
Corporate	-0.1	Senate recedes.
Subtotal, Corporate and General Business Taxation		
Individual	3.2	
Corporate	-123.4	
Excise	0.1	
Total	**-120.1**	
VII - MINIMUM TAX PROVISIONS		
Revise the alternative minimum tax		
Individual	4.8	House recedes on rates, with modifications (a) providing broadest base as between both bills, (b) replacing book preference with e&p in a revenue-neutral manner, (c) providing a carryover of disallowed interest (see Note b).#
Revise corporate minimum tax		
Corporate	31.0	
Subtotal, Minimum Tax Provisions		
Individual	4.8	
Corporate	31.0	
Total	**35.8**	
VIII - ACCOUNTING PROVISIONS		
Limitation on the use of cash accounting		
Corporate	2.7	Senate recedes, with technical modifications (similar item in President's Proposal).#

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Simplified LIFO for certain small businesses		
Individual	-0.2	Senate recedes.
Corporate	-1.8	
Recognition of gain on pledges of installment obligations		
Individual	0.2	House recedes, with modifications.#
Corporate	6.2	
Capitalization of inventory, construction and development costs		
Individual	2.3	Senate recedes (similar item in President's
Corporate	28.5	Proposal).
Long-term contracts		
Individual	0.6	Senate recedes, with modifications.
Corporate	13.6	
Repeal of reserve for bad debt for nonfinancial institutions		
Individual	0.4	Senate recedes (item in President's Propos-
Corporate	6.8	al). House recedes on use of reserve method for dealers' guaranteed debts.
Partnership, Sub S, and personal service tax year conformity		
Individual	1.7	House recedes, with modifications.#
Qualified discount coupons		
Corporate	0.1	House recedes (item in President's Proposal).
Require utilities to accrue earned but unbilled income		
Corporate	1.5	House recedes.
Contributions in aid of construction		
Corporate	0.5	Senate recedes (Senate offer).
Discharge of indebtedness		
Individual	0.0	House recedes.
Corporate	0.3	
Subtotal, Accounting Provisions		
Individual	5.0	
Corporate	58.4	
Total	63.4	
IX - FINANCIAL INSTITUTIONS		
Limitation on bad debt reserves		
Corporate	4.6	Senate recedes (similar item in President's Proposal) (Senate offer).
Disallow interest to carry tax-exempt bonds		
Individual	-4.6	Senate recedes (item in President's
Corporate	5.0	Proposal) (Senate offer).#

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Special NOL carryover rules for depository institutions		
Corporate	-0.3	Senate recedes on treatment of post-1986 NOLs. House recedes on treatment of 1982-1985 NOLs.
Special reorganization rules for troubled thrifts		
Corporate	0.7	Senate recedes (similar item in President's Proposal), with a 1/1/87 effective date (except for FSLIC payments received pursuant to an agreement entered into on or before 9/25/85).
Subtotal, Financial Institutions		
Individual	-4.6	
Corporate	10.0	
Total	5.4	
X - INSURANCE PRODUCTS AND COMPANIES		
Structured settlements		
Individual	0.0	Senate recedes.
Policyholder loans		
Individual	*	House recedes.#
Corporate	(2)	
Deduction of policyholder loss		
Individual	0.0	Senate recedes.
Special life insurance company deduction		
Corporate	3.4	Same in both bills.
Tax-exempt organizations engaged in insurance activities		
Corporate	1.4	Senate recedes, with an exception for TIAA/CREF (pension reserves only), and for certain church-sponsored insurance.
Treatment of acquisition expenses		
Corporate	3.5	Senate recedes, with technical modifications regarding life insurance reserves, ceasing to be an insurance company, and title insurers.#
Treatment of tax-exempt income		
Corporate	0.6	Senate recedes, with 15% rate.#
Treatment of loss reserves		
Corporate	4.2	House recedes, with modifications.#
Treatment of net gain from operations		
Corporate	0.0	House recedes.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Protection against loss account for mutual companies		
Corporate	0.2	House recedes, except recapture of existing accounts left open.
Special exemptions, rates, and deductions of small mutual companies		
Corporate	-0.1	House recedes.
Subtotal, Insurance Products and Companies		
Individual	(2)	
Corporate	13.2	
Total	13.2	
XI - PENSIONS AND DEFERRED COMPENSATION; EMPLOYEE BENEFITS; ESOPS		
Individual retirement arrangements (IRAs)		
Individual	24.8	Senate recedes, with modifications and with an amendment to retain present law for returns of taxpayers without retirement plans and to allow a $2,000 IRA deduction, phased out between $40,000 and $50,000 of AGI ($25,000 and $35,000 for singles) for returns of taxpayers for which any individual or spouse has a retirement plan. No nondeductible IRA contributions would be permitted.
Other plans (401(k), 403(b), 457)		
Individual	3.4	Senate recedes, with an amendment to drop the first-dollar offset of the IRA deduction limit, and with modifications.#
Deferred annuity contracts		
Corporate	0.1	Senate recedes, with a modification.#
Simplified employee plans (SEPs)		
Individual	0.0	Senate recedes.
Minimum standards for qualified plans		
Individual		House recedes on vesting, integration, definition of highly compensated employees, includible compensation, and minimum participation rule with modifications; other issues open.#
Tax on pre-retirement distributions, uniform basis recovery rules		
Individual	1.9	Senate recedes (similar items in President's Proposal).#
Replace 10-year averaging with limited 5-year averaging		
Individual	0.5	Senate recedes.

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Repeal 3-year basis recovery rule for contributory plans		
Individual	8.7	Senate recedes, except House recedes on Senate rule on lump-sum distributions of employee contributions (item in President's Proposal).
Loan provisions		
Individual	*	Senate recedes.#
Increase early retirement age / 415 limits		
Individual	4.5	House recedes with modifications, except Senate recedes on cost-of-living indexing; special rule for police and firefighters open.#
Tax on excess retirement distributions		
Excise	0.1	Senate recedes with a modification (item in President's Proposal).
Adjustments to Section 404 limitations		
Individual	0.2	Senate recedes with a modification (similar items in President's Proposal).#
Excise	*	
Tax on qualified plan reversions		
Excise	0.2	House recedes on general rule with a modification; Senate recedes on ESOP exception.#
Extension of the exclusion for group legal plans		
Individual	-0.2	Senate recedes with an amendment (Senate offer).#
Employment	-0.1	
Extension of the exclusion for education assistance		
Individual	-0.2	Senate recedes (Senate offer).
Employment	-0.1	
Limit employer provided child care to $5,000		
Individual	*	Senate recedes.
Discrimination rules for employee benefits		
Individual	0.5	Compromise proposal with 1/1/88 effective date.#
Cafeteria plans		
Individual	*	Compromise proposal with 1/1/88 effective date; Senate recedes on full-time life insurance salesmen.#
Faculty housing		
Individual		House recedes with technical modifications.#

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Self-employed health insurance		
Individual	0.0	Senate recedes.
Health benefits for retirees		
Individual	0.0	Senate recedes.
Limitation on accrued vacation pay		
Individual	(2)	Same in both bills.
Corporate	0.2	
Changes related to ESOPs		
Corporate	2.6	Senate recedes with an amendment.#
Subtotal, Pensions and Employee Benefits		
Individual	44.1	
Corporate	2.9	
Excise	0.3	
Employment	-0.2	
Total	47.1	
XII - FOREIGN TAX PROVISIONS		
Separate limitations for categories of income (other than high-witholding-tax interest)		
Corporate	2.2	Senate recedes, except House recedes as to (a) separate box for currency translation gains, which House offer would delete, and (b) business needs exception for currency gains of dollar taxpayers, which House offer would allow. As to look-through rules, House recedes with technical amendments, but dividends from each non-controlled foreign corporation would be separate boxed and other payments from noncontrolled foreign corporations would be treated like payments from unrelated parties.#
Income from sale of property		
Corporate	2.4	Senate recedes (item in President's Proposal), except as to source of income from sales of non-inventory property that does not incur de minimis tax, where House recedes (to treat as U.S. source) and extends de minimis rule to all sales of personal property.#
Dividend and interest income		
Corporate	(2)	Senate recedes to House general rule but,

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
		except for dividends paid to U.S. persons, provides look-through treatment for active foreign businesses (and 10% floor on payments to related foreigners).#
Allocation of interest and other expenses		
Corporate	2.4	House accepts Senate offer (which leaves method of raising revenue open).
Allocation of research expenses to foreign source income		
Corporate	-0.4	Senate recedes.
Possessions tax credit (items relating to intangibles)		
Corporate	0.2	Senate recedes (item in Treasury proposal).#
Guam, Northern Marianas, and Samoa	*	Same in both bills, with amendment applying expatriate rules to U.S. persons who move to possessions (without regard to motive).
Transfers of intangibles		
Corporate	0.4	Senate recedes (item in Treasury proposal).
Foreign investment companies		
Corporate	0.1	Generally, House recedes but with restrictions (including requirement that foreign fund furnish information) on identification of income and flow-through of income character and with technical modifications.#
Excise tax on insurance premiums		
Excise	0.2	Senate recedes.
Foreign investors in U.S. partnerships		
Corporate	*	House recedes with amendment extending treatment to foreign partnerships.
Transfer prices of imports		
Corporate	*	House recedes.
All other items in foreign title		
Corporate (or Excise)	4.4	Open.
Subtotal, Foreign Tax Provisions		
Individual	0.2	
Corporate	11.7	
Excise	0.2	
Total	12.1	(i.e., $1.5 billion less than House bill)
XIII - **TAX-EXEMPT BONDS**		
Subtotal, Tax-Exempt Bonds		
Individual	3.0	Senate recedes with modifications. Details
Corporate	-0.4	of substantive rules are open. All effec-

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
		tive dates are as in House bill, except as modified by Joint Statements on Effective Dates of 3/14/86 and 7/17/86. Transition rules are open.
Total	2.6	(i.e., $1 billion less than House bill)
XIV - TRUSTS AND ESTATES, MINOR CHILDREN, ESTATE AND GIFT TAX		
Revise taxation of estates and trusts		
Individual	1.0	House recedes, with an amendment taxing the income of an estate during its first two years at rates of trusts.
Payment of estimated income taxes by trusts and estates.		
Individual	2.5	House recedes, with an amendment providing an exemption for an estate's first two years from required payment of estimated taxes.
Unearned income of a minor child		
Individual	1.0	House recedes with an amendment taxing all unearned income of a minor child above a revenue-neutral, fixed dollar amount at the parents' tax rates.
Disclaimers for gift tax		
Estate & Gift	*	Senate recedes.
Conservation easement donations		
Individual	*	House recedes, with addition of Acadia National Park.
Generation-skipping transfer tax		
Estate & Gift	*	Senate recedes, including on House effective dates.
Subtotal, Trusts and Estates		
Individual	4.5	
Estate & Gift	0.0	
Total	4.5	
XV - COMPLIANCE AND TAX ADMINISTRATION		
Penalty provisions		
Individual	1.6	See Note b.
Corporate	0.6	
Excise	*	
Estate & Gift	*	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Interest provisions (4)		
Individual	0.7	See Note b.
Corporate	1.1	
Information reporting provisions		
Individual	3.6	See Note b.
Corporate	0.1	
Tax shelter provisions		
Individual	0.2	Senate recedes on tax shelter user fee (see Note b on other provisions).
Revise estimated tax rules for individuals		
Individual	1.6	See Note b.
UBIT and private foundations estimated tax		
Corporate	0.2	See Note b.
Tax litigation and tax court		
Individual	(3)	Attorney's fees: House recedes on termination date and IRS employee liability; Senate recedes on remainder (see Note b on other provisions).
IRS Trust Fund		
Individual	0.0	Senate recedes.
Corporate	0.0	
IRS administration provisions		
Individual	*	See Note b.
Employee withholding schedule		
Individual	0.7	House recedes.
Subtotal, Compliance and Tax Administration		
Individual	8.4	
Corporate	2.0	
Excise	*	
Estate & Gift	*	
Total	10.4	
XVI - EXEMPT AND NONPROFIT ORGANIZATIONS		Generally, title is left open (see Note b).
Trade shows		
Corporate	0.0	Open.
Distribution of low-cost articles by charities		
Excise	(3)	Senate recedes.
Tax exemption for certain title holding companies		
Individual	-0.1	House recedes.
Corporate	-0.1	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]	
Subtotal, Exempt and Nonprofit Organizations		
Individual	-0.1	
Corporate	-0.1	
Excise	(3)	
Total	**-0.2**	
XVII - OTHER PROVISIONS		
Extend targeted jobs tax credit		
Individual	-0.1	Senate recedes (Senate offer).
Corporate	-0.4	
Allow ministers to reelect social security coverage		
Employment	0.0	Senate recedes.
Common paymaster rule for FICA & FUTA taxes		
Employment	0.0	Senate recedes.
Agricultural wages subject to FUTA		
Employment	0.0	Senate recedes.
FUTA for certain Indian tribes		
Employment	0.0	House recedes.
Treatment of certain technical personnel		
Employment	*	House recedes.
Federal tax deposit threshold		
Individual	0.0	Senate recedes (Senate offer).
Employment	0.0	
Exclusion of certain foster care payments		
Individual	*	Open.
Exempt certain reindeer income from tax		
Individual	*	Senate recedes.
Subtotal, Other Provisions		
Individual	-0.1	
Corporate	-0.4	
Excise	0.0	
Employment	0.0	
Total	**-0.5**	
XVIII - TECHNICAL CORRECTIONS	**-0.5**	Document distributed 7/21/86.
ACCOMMODATION OF TRANSITION RELIEF		
Individual	-0.5	
Corporate	-6.5	

Provision	Fiscal Years 1986-1991 [Billions of Dollars]
TOTAL, TAX REFORM	
Individual	-141.4
Corporate	141.7
Excise	0.4
Employment	-0.2
Estate & Gift	*
Customs	*
GRAND TOTAL	0.5

Joint Committee on Taxation
August 4, 1986

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(1) Estimate is included in rate reduction line.
(2) Gain of less than $50 million.
(3) Loss of less than $50 million.
(4) Net of outlays.

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* Negligible.
\# See background document titled "Technical and Structural Details of House Offer."

NOTES: (a) Effective dates are generally 1/1/87 with certain exceptions, even where Senate recedes.
(b) The resolution of minor issues in this document, as well as minor items not listed in this document, is the same as the resolution in the document "Possible resolution of certain issues" (July 18, 1986).
(c) All transitional rules in both bills (including, but not limited to, depreciation, ITC, rehabilitation credit, 167(k), and bonds) are left open and are to be paid for out of transitional relief pool.
(d) The statement "Same in both bills" does not take into account differences in effective dates, transitional rules, or technical issues.
(e) Items with a revenue effect of less than $50 million generally are not reflected in this document.
(f) This document reflects general targets in these areas. Details, structure, and technical issues related to these items are left open.